GOVERNMENT OF INDIA
FINANCE
LOK SABHA

STARRED QUESTION NO:96
ANSWERED ON:04.12.2015
Forward Trading
Malyadri Shri Sriram;Maurya Shri Keshav Prasad

Will the Minister of FINANCE be pleased to state:

(a) the extent to which future/forward trading in commodity market is responsible for inflation;
(b) whether the Government proposes to put an end to the forward trading in commodity market so as to check inflation and black marketing, If so, the details thereof and if not, the reasons therefor along with the alternative steps/measures taken/proposed to be taken to curb/check inflation and black marketing;
(c) whether there is a huge gap between the securities and commodity market, if so, the details thereof and the reasons therefor; and
(d) the reformative steps taken/proposed to be taken by the Government to establish parity between the two markets and safeguarding the interests of the investors?

Answer

(SHRI ARUN JAITLEY)

(a) to (d): A statement is placed on the Table of the House.

STATEMENT REFERRED TO IN THE REPLY TO LOK SABHA STARRED QUESTION NO. *96 RAISED BY SHRI KESHAV PRASAD MAURYA AND SHRI MALYADRI SRIRAM MEMBERS OF PARLIAMENT DUE FOR REPLY ON 04TH DECEMBER, 2015 REGARDING "FORWARD TRADING".

(a) & (b) Several empirical studies have examined the reasons and factors for food inflation in India. These studies indicate that price movements in agricultural commodities are largely dependent on fundamental factors such as supply, demand, levels of exports or imports etc. and there is no evidence of causal relationship between forward/futures trading and food inflation. Futures trading in commodities is useful to various stakeholders in the economy for price discovery and risk management. Commodity futures trading takes place under the regulatory oversight of Securities and Exchange Board of India (SEBI) and there is no proposal to put an end to this trading.

The Government has taken several steps to control inflation, including the following:
i). Minimum Export Price (MEP) for onion has been raised from USD 425 per M.T to USD 700 per MT w.e.f. 24.8.2015.
ii). Stock limits of onion extended up to 2nd July 2016 under the Essential Commodities Act, 1995.
iii). Export of all pulses is banned except kabuli channa and up to 10,000MTs in organic pulses and lentils.
iv). Zero import duty on pulses extended till 30.9.2016 except for chana and lentils.
v). Stock limits on pulses extended till 30.9.2016.
vi). States have been advised to allow free movement of fruits and vegetables by delisting them from the Agricultural Produce Market Committee Act.
vii). A new Plan Scheme titled Price Stabilization Fund (PSF) has been implemented for regulating price volatility in agricultural commodities.
viii). States have been advised to exempt levy of market fee on fruits and vegetables and to allow establishment of "Kisan Mandis" where producers and Farmer Producer Organizations can directly market their produce to wholesalers, organized retailers and ordinary consumers.
ix). Advisory to State Governments have been issued to take strict action against hoarding & black marketing and effectively enforce the Essential Commodities Act, 1955 and the Prevention of Black-marketing and Maintenance of Supplies of Essential Commodities Act, 1980.

(c) & (d) Till 28th September, 2015, commodity futures market and securities market were regulated by the Forward Markets Commission (FMC) and the Securities and Exchange Board of India (SEBI) respectively under the provisions of separate legislations. As such, besides coming under different regulatory regimes, these markets had differences in terms of products and participants. With a view, inter alia, to tighten the regulatory oversight over commodity derivatives market and bringing synergy of regulation between the commodity derivative and security markets, functions of FMC were transferred to SEBI with effect from 29th September, 2015 and the Forward Contracts (Regulation) Act, 1952, under which FMC was operating, was repealed. Thereafter, SEBI has amended various regulations and issued guidelines to enable integration of commodity derivatives and securities trading in an orderly manner.